GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1581
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Inflation
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Will the Minister of FINANCE be pleased to state:

(a) the present gap between rural and urban inflation along with the reasons therefor;
(b) whether there is a decline in Index of Industrial Production (IIP) and rise in prices, if so the details thereof and the reasons therefor;

(c) whether the Inflation is measured on the basis of wholesale price index (WPI) and if so, the reasons therefor;

(d) whether the Government proposes to set up a Monetary Policy Committee to manage inflation in the country, if so, the details of the composition and the time by which it is likely to be formed;

(e) whether there is any mechanism in place to fix accountability in meeting inflation targets, if so, the details thereof and if not, the reasons therefor; and

(f) the other steps taken/proposed to be taken by the Government to remedy the gap?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI JAYANT SINHA)

(a) General inflation based on Consumer Price Index (CPI) for the urban sector stood at 4.8 per cent in January 2016, whereas the corresponding figure for the rural sector was 6.5 per cent. The difference between urban and rural inflation is partly owing to variation in the weights of items in the two baskets. The rural basket of the CPI assigns significantly larger weight to food items. Therefore, even if price rise in rural as well as urban areas are same, different weighting diagrams give different inflation rates for these areas. The price dynamics in rural and urban markets are also different.

(b) The Index of Industrial Production (IIP) recorded a growth of 3.1 per cent in April-December 2015-16 as compared to 2.6 per cent in the same period last year. Inflation based on Consumer Price Index (Combined) declined to 4.9 per cent in April-January 2015-16 from 6.1 per cent in the same period last year.

(c) Inflation based on Consumer Price Index (Combined) is now taken as the key measure of inflation by the Reserve Bank of India (RBI) to anchor its monetary policy. Inflation is also measured on the basis of Wholesale Price Index (WPI) to measure the impact of price changes at wholesale level.
(d) The Union Budget 2016-17 has proposed to amend the RBI Act 1934 to provide statutory basis for a Monetary Policy Framework and a Monetary Policy Committee through the Finance Bill 2016. The Monetary Policy Committee shall consist of the following Members, namely:−
(i) Governor of the Reserve Bank of India (RBI) â€" Chairperson, ex officio;
(ii) Deputy Governor of the RBI, in charge of Monetary Policyâ€" Member, ex officio;
(iii) one officer of the RBI to be nominated by the Central Boardâ€" Member, ex officio; and
(iv) three persons to be appointed by the Central Governmentâ€" Members.

(e) The Government has signed an agreement on Monetary Policy Framework with the RBI in February 2015 with the targets, namely: a) the RBI will aim to bring inflation below 6 per cent by January 2016; b) the target for financial year 2016-17 and all subsequent years shall be four (4) percent with a band of +/- 2 per cent. If the RBI fails to meet the target, it shall set out a report to the Central Government indicating i) the reasons for its failure to achieve the target; ii) remedial actions proposed to be taken by the RBI and; iii) an estimate of the time period in which the target would be achieved pursuant to the timely implementation of proposed remedial actions.

(f) Does not arise, because of the reasons given in (a) above.